Transcript

Glenn Neely and Ike Iossif discuss the current high-risk environment, Europe's impact on the U.S. stock market, and investment strategy advice

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Introduction: Welcome to "Market Views with Ike Iossif and Friends," the show that not only reveals and analyzes the inside story on today's market news but also uncovers the areas where investors can make money right now. "Market View with Ike Iossif and Friends" is being brought to you by Aegean Capital Group.

Ike Iossif: Good evening. I'm Ike Iossif, your host for "Market Views." Today's guest is my very good friend, Mr. Glenn Neely. Hi, Glenn. How are you?

Glenn Neely: I'm doing well, Ike. How's it going?

Ike Iossif: I'm doing well. Glenn, you and I have been following the markets for all of our adult lives, and our track record is recommended by *Timer Digest* and other sources.

Glenn Neely: I was looking at *Timer Digest's* January 30 special report, which is just a few days ago, and you're listed as a top 10 timer for the last eight years, and the last 10 years for the S&P. Congratulations on that. Let's take a moment to toot your horn – you're always tooting everybody else's horn.

Ike Iossif: And Glenn, let me congratulate you for being among the top 10 S&P timers for the last eight years and 10 years. I don't want anybody to think that we're trying to pat ourselves on the back, but given our track record, maybe we can help some people get a better idea about what is going on in the markets.

Glenn Neely: I think that’s a good idea.

Ike Iossif: Glenn, you look at the market from a whole different angle than I do. Your methodology and my methodology are different. Nevertheless, at the present time, we’re pretty much at the same conclusion, correct?

Glenn Neely: Yes. That’s the underweight theory. Right now, the U.S. stock market is in a very unpredictable market environment. It has been that way ever since about six months after the low in 2009. It was really bad for the 2010 period. It’s finally getting a little bit better, but it’s still really difficult, especially in the U.S. stock market, to predict anything that’s going to happen day to day or week to week.

Ike Iossif: Both your methodology and my methodology deal with intermediate-term trading.

Glenn Neely: I do have short-term trading, but also intermediate and longer term. I cover three different timeframes. Futures are more the short term. Then I have equities for the longer term. That’s in ETFs for the longer term, and traded based on weekly charts.

Ike Iossif: Mine is pretty much risk based. When you deal with risk, what people need to understand is simply this: Once you get into a high-risk area, the period during which that risk remains could be one month or one year. If you look at my track record, which has been verified by *Timer Digest*, we first got into such an area, according to my system, on November 29, 1999. The market at the time, if you measured by the S&P, was at 1,407. It topped at 1,505. That was on August 23, 2000. Eleven months later, we were up about 8%. Then the market topped out and it lost about 50%.

We were at a similar reading on April 17, 2007. Back then, the S&P went up to 1,471. It topped at 1,565 on October 10, 2007, about 100 points higher.

My point is if you go back to 1998, twice my system gave a high-risk reading about 10 months before the market experienced a 50% decline. During those 10 months, the market advanced another 7% to 8%. Right now I'm getting the same reading.

Glenn Neely: How do you get these readings?

Ike Iossif: The indicator that I use is not just one thing. It's a weighted average indicator of several other indicators that have to do with interest rates and momentum, as well as earnings.

Glenn Neely: Does volatility come into play?

Ike Iossif: Yes. Right now I'm seeing the same readings that we had back in 1999 and in 2007. What that tells me is the market could advance another 8% to 10% over the next 10 months, but the ensuing decline could be between 40% and 50%. You just hang on to your cash and you wait.

If I'm not mistaken, you are pretty much in the same predicament but from a different angle, right?

Glenn Neely: Yes. Wave theory defines unpredictable periods in a different way. It's always present during certain waves of larger patterns. Unpredictability is always present during B waves. The closer you are to the middle of a B wave, the more unpredictable it gets. It's always unpredictable in the center leg of any pattern.

The B wave is generally the center leg of an ABC correction. It's the third wave in a five-wave move. It's the X wave of a complex correction. Whatever is the very center leg of a pattern under Wave theory will always be the point where you have the most options going forward.

It's like leaving Los Angeles and driving to New York. There are only few highways you can take to get out of town, but the farther away you get from Los Angeles, the more variable the different paths you can take to

eventually end up in New York. As you get closer to New York, the fewer roads you have to get into the city.

The unpredictable and most flexible part is toward the center where there could be dozens of different options, possibilities or wave counts that could explain what's going to happen down the road. Eventually, as you get to the end, everything starts clearing up. Possibilities start declining, and you get back to one scenario.

Under Wave theory, it's always the center portion of a pattern that's unpredictable. Unfortunately, as we stand right now, starting from the high in 2000, Wave theory indicated right as that bear market began that we had to go through at least 20 years of a correction before we could possibly get to the end. It could even be 30 years.

If it's 20 years, we're just past the middle of that 20-year period. Inside of that 20- to 30-year correction, we also have some smaller patterns. One is starting from the high in 2007. We're just past the middle of the pattern.

Then there are some potentially smaller patterns that are also closer to the middle of their development. It makes it extremely difficult to say what's going to happen.

Whenever a market is in this center period, it's extremely susceptible to unexpected news events that can all of a sudden push the market dramatically up or down without notice. In other words, the market is extremely susceptible to any kind of international news. It can react to any problems quite significantly, because most investors right now, according to Wave theory, are not heavily invested. They're unsure. They're quick to change their minds. There's a lot of money on the sidelines, so things could change one way or the other very quickly. That leaves it wide open to almost anything taking place.

Ike Iossif: Do you have any thoughts with regards to dangers coming from Europe?

Glenn Neely: That's slightly outside my realm. Ike, since you live and work in Europe, what are your thoughts about Greece, other European countries and the Euro?

Ike Iossif: It's not Greece that people ought to worry about. It is a European recession coming from Greece, Portugal, Spain, Italy, France and Belgium. Keep in mind, 50% of the S&P earnings come from overseas.

With Europe in recession for the second half of 2012, I just cannot see how analysts' expectations with regard to S&P earnings can be met. That is where the risk comes from, not from Greece defaulting. It comes strictly from S&P 500 companies not being able to meet their earnings expectations.

Glenn Neely: So it's just a massive reduction in consumerism?

Ike Iossif: Absolutely.

Glenn Neely: We've experienced some of that. When I was anticipating the crash in 2000 and 2002, it happened as I expected, but what really bothered me, and I didn't quite understand it for about five years, is how come the economy didn't get bad during that drop to 2002's low? I just couldn't quite get what was going on. It finally dawned on me. That was just the leg of a 20-year or 30-year correction or bear market. We were in the very early phases of the correction.

Ike Iossif: Do you know Jim Dines? He's a good friend of mine, and a mentor. He told me this. He said, "Look, Ike. You do not get a decline in NASDAQ of the magnitude we had without seeing some follow-through in the economy. The decline in NASDAQ is a prologue of what you're going to see five years later."

He was spot-on. He told me that in 2002, and the economy peaked out in 2007, exactly five years later. That comes from a guy who has been following the markets since 1955.

Glenn Neely: Wow! That's 25 years longer than me. When I saw that correction and saw that the economy really wasn't that impacted, I was perplexed for a while. Then it finally dawned on me. It's because it was the very early stages and that the bad part wouldn't take place until halfway or maybe three-fourths of the way through.

We're finally starting to experience that now. After 10 years of a sideways market and 10 years of declining incomes, house values, and all the other stuff that's going on, that's finally having an impact to the point where it's really affecting a majority of people's lives, not just a small number who would speculate in the stock market during the first two or three years of the bear market.

Now it's broader based. If Europe joins in with this kind of decline and there's a massive reduction in consumption and product creation in Europe and in America, that's going to just perpetuate and makes things even worse.

We're probably going to have another round of increasing unemployment and declining stock market values, failing companies, potentially failing banks, and private real estate going down again, which brings us back to the things I've talked about before with you.

Even though the evidence isn't strong yet, I still feel the long-term trend will have to be deflationary, not inflationary, just because there are so many negatives long term that will keep the economies from growing. What do you think about that?

Ike Iossif: My conclusion is pretty much the same. I can sum it up like this. The market is in a high-risk environment. This environment can continue for

another 7 to 10 months. During that period, the market can advance another 8% to 10%, but the ensuing decline would be in excess of 40%.

Glenn Neely: I assume the higher it goes, the more downside and the faster it might drop, right?

Ike Iossif: Yes. The question, if you're an intermediate to long-term investor of one to five years, is do you want to capture the next 8% to 10% at the risk of losing 40% or 50%? Or do you just stay in cash, keep your peace of mind, and wait for the next wave down?

All I can say is that we are in a high-risk environment. High-risk environments tend to be unpredictable with regard to how long they will last. They can last 2 months or 12 months. On average, they have lasted about 9 months.

Glenn Neely: That's basically what happened in 2008 to 2009.

Ike Iossif: Yes, and the same thing in 1999 until 2000.

Glenn Neely: The way that I've been dealing with this is I've been mostly focused on just saving as much money as I can and having it in low-risk to high-dividend paying investments. I've avoided any risky stock investments.

I think I'm going to be in that kind of environment for maybe another 10 years. Getting guaranteed income and dividends and as high interest as you can and forgetting about appreciation is really the way to go for the next five or 10 years. What do you think about that?

Ike Iossif: Unfortunately, my system does not go out that long, but I can concur for the next 6 to 10 months. Then I will have to reevaluate. I allow for higher prices for the next six to 10 months.

Glenn Neely: But not significantly higher, right?

Ike Iossif: I allow for between 8% and 10%. This kind of advance will be subject to a 40% to 50% decline.

Glenn Neely: Would this be instigated by news? What would you think is a catalyst for such a decline?

Ike Iossif: I believe the catalyst will be this: Right now, if it wasn't for central bank intervention around the world, whether it is the central bank of Japan, the ECB or the Fed, we would have already seen the results.

Glenn Neely: Probably. They're big Daddy Warbucks.

Ike Iossif: If you know anything about poker, you know two things. First, you can win a hand but lose the game. Second, you can win a hand without having to show your cards. Central banks around the world right now are winning a hand without having to show their cards. If they had shown their cards, they would probably lose. We're playing a continual game, and they don't have to show their cards.

Glenn Neely: It's a game of deception.

Ike Iossif: Exactly, but I don't believe that you can win the game all the way to the end. My point is we can see higher prices for the next 6 to 10 months. We can see higher prices as much as 8% to 10%, but beware, because after that we're going to have to settle for the game. I don't think central banks will end up winning the game, although they're winning the hand right now.

Glenn Neely: A typical progression when you move from a money system that's backed by true commodities, like gold or silver, to one that's just paper and not really backed by anything, is it tends over time to go from stable to volatile. We had a very stable country before 1913 and through the 1950s and 1960s. It had just gotten progressively more volatile as we get farther

away from our gold and silver standard and on a floating currency exchange. All the countries of the world are doing that now.

Don't you think that's a big part of this increasing boom-bust volatility that seems to be happening faster and faster? Where do you think this is all going to end? Do you think we're going to go back to a gold standard or some kind of metal standard?

Ike Iossif: I do not know. One thing about high-risk environments is you do not know what's going to happen in the end.

Glenn Neely: Do you think it's caused by having so much paper currency that's not backed by anything?

Ike Iossif: I do. One brilliant thing that happened in 1972 is that, although Nixon disassociated the dollar from gold, he struck an agreement with Saudi Arabia for oil to be paid in dollars. Therefore, because of this agreement, the dollar was backed by oil. Yes, we did lose the gold standard, but the gold standard was replaced by the oil standard.

Glenn Neely: I've never heard anybody say that before. That's very interesting.

Ike Iossif: How long could this last? It has already lasted for over 40 years.

Glenn Neely: There are rumblings against that now too.

Ike Iossif: We're in a high-risk environment. You cannot calculate what the outcome is going to be.

Glenn Neely: The overview is that while we're in this high-risk environment, I think we're both in agreement that being more cautious and protecting capital preservation is top priority.

As this high-risk environment fades and maybe we move into a bargain environment, possibly a few years from now where there are a lot of great

bargains to buy, that's when you'd want to reemploy the cash that hopefully you're saving now and using for later. It's sort of the Warren Buffett approach of waiting for bargains. I think that's the safer approach at this time.

Ike Iossif: Glenn, thank you. Have a great day.

Glenn Neely: Ike, I appreciate it. It was a great conversation.